

VZCZCXR07195
OO RUEHLMC
DE RUEHTG #0151/01 0241618
ZNY CCCCC ZZH
O 241618Z JAN 07
FM AMEMBASSY TEGUCIGALPA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4747
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY
RUEHCV/AMEMBASSY CARACAS PRIORITY 0533
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY 0577

C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 000151

SIPDIS

SIPDIS
NOFORN

STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, EB/CBA, AND WHA/CEN
STATE FOR D, E, P, AND WHA
STATE FOR S/ES-O MMILLER AND MSANDELANDS
TREASURY FOR AFAIBISHENKO
STATE PASS AID FOR LAC/CAM
NSC FOR DAN FISK
COMMERCE FOR MSELIGMAN AND WBASTIAN
STATE PASS USTR FOR AMALITO

E.O. 12958: DECL: 01/22/2017

TAGS: EPET ENRG PREL BBSR NI VE HO

SUBJECT: HONDURAS: CONOCO PAUSING TO AWAIT CLARITY ON OIL
STORAGE, BUT OTHERWISE STILL BULLISH

REF: A. A) TEGU 0134 AND PREVIOUS

¶B. B) TEGU 0135
¶C. C) TEGU 0149

Classified By: AMB Charles Ford for reasons 1.4 (b,d)

¶1. (C/NF) On January 22, a representative of U.S. firm ConocoPhillips told EconChief by phone that the company remains optimistic about signing a contract with Honduras for the delivery of all gasoline and diesel imports for the coming year. Conoco said that its position remains the same as it was prior to the January 13 announcement that the GOH it intend to take control of privately-owned oil storage facilities. Negotiations with the GOH continue, and "everything is moving forward as (the GOH) had specified."

¶2. (C/NF) Conoco's contract will cover only delivery of the fuel to the offload flange at a receiving terminal in Honduras. Conoco is therefore not concerned about "internal issues" in the Honduran fuels market, and says that any changes to the "onshore" fees (described ref A) would not affect Conoco at all. Conoco is requiring, however, that the GOH demonstrate that it has assumed control of the receiving terminals, and that an ISO-certified tank operator be in place to administer the installation. The GOH has threatened to replace all existing storage terminal workers with outside contractors from Peru. Conoco expressed no concern with such a change, noting that those kinds of changes of ownership and staffing happen all the time in the oil sector.

¶3. (C/NF) GOH sources had been expecting a visit from Conoco this week to continue and perhaps conclude negotiations. Conoco, however, denied having a plan to visit Honduras so soon, noting that it would be premature to send a technical inspection team to look at the receiving facilities until the above conditions have been met. Only once the terminal passes this inspection will Conoco proceed to signing the contract. In addition, Conoco is seeking to add language to the contract that would indemnify it from any lawsuits by the owner of the terminal, DIPPSA/Trafigura. Despite this pause

in talks while the matter of storage is clarified by the GOH, Conoco remains committed to the deal.

¶14. (C/NF) Conoco's representative told EconChief that the company was surprised by the interest shown by the Department of State in this case. EconChief said this was a high-profile issue in Honduran politics with a long history, and that Conoco had "walked into a play in its third act." Precisely because of the highly politicized nature of the matter, Post had given an extensive briefing to Conoco in December, to help ensure Conoco would not be blindsided by events. Conoco's representative thanked EconChief for that context, saying that because Conoco has no presence in Honduras, the input of Post was vital to better understanding the situation. EconChief stressed that, as always, the decision of how to weigh this information as part of the overall choice of whether to invest in Honduras was the responsibility of the company.

¶15. (C/NF) Given allegations in the press that the USG was "twisting Conoco's arm" to not sign any contract, EconChief asked Conoco directly if at any time anyone from the USG had told Conoco they could not or should not sign the contract. Conoco confirmed that no one had ever said anything like that to them, and that in fact Conoco maintains its intention to sign a contract as soon as the storage issues are satisfactorily resolved. EconChief also asked if such pressures were being exerted by other international oil companies (IOCs). Conoco's representative said that Conoco routinely talks with other IOCs (except about price), and that the pending deal in Honduras was not a source of friction in those relationships. Conoco said that it has 500,000 and 600,000 barrels per day relationships with the other IOCs, and that in comparison a 12,000 barrel per day

TEGUCIGALP 00000151 002 OF 002

deal in Honduras is "peanuts."

¶16. (C/NF) Comment: Post will continue to defend the interests of all three U.S. oil companies (Conoco, Esso, and Texaco) involved in this matter, but will continue to insist to the GOH that any new delivery arrangements not infringe the existing rights of current investors. Post will remain in contact with Conoco as this negotiation progresses, and Conoco has offered to brief Post during their next visit to Honduras. End Comment.

FORD
FORD